



Quarterly Economic Update

June 2002



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This report is a monthly update to the Quarterly Economic Indicators Report, both of which are available on the internet @ <http://www.co.mo.md.us/services/finance> For questions, please call (240) 777-8887

- **Economic Conditions.** The economy rebounded with 6.1% growth in the 1st qtr 2002. This is the result of an upturn in inventory investments, exports, and federal government spending (homeland security), but moderated by weaker personal consumption and state/local government spending.

Reflecting improvements in capital spending, including for high-technology equipment, the manufacturing sector expanded in the past five months, following a contraction that lasted 18 months. The national leading economic indicator jumped to a record high in May, in part due to a drop in unemployment claims. Even though the regional leading index declined slightly in April 2002, it is above last year's index, largely due to strong durable goods sales and a solid job market.

- **Financial Conditions.** In contrast to a rebounding economy, stock markets remain in negative territory. Prior reports mentioned that the absence of corporate profit growth would prevent a resurgence of the financial markets any time soon. Now, new accounting problems indicate that previously recorded profits were either much lower or non-existent suggesting that in many cases the stock market bubble was actually a mirage.

Not surprisingly, the flight to quality pushed the stock markets down double-digits and contributed to a weaker dollar as foreign investors sold their holdings in the American stock markets, pushing up the Euro close to parity with the dollar. With accounting scandals impacting some of the largest companies, including MCI and Xerox, investors are unlikely to return soon, suggesting that a quick stock market return to positive territory is unlikely.

- **Capital Gains.** This also indicates that, not only was part of the sky rocketing profit growth of the period 1995-99 illusory, but so was the jump in capital gains. In contrast to the past few years when governments benefited from the additional revenues

associated with capital gains and stock options, much of that base has now evaporated with the NASDAQ (-69%) and S&P 500 (-35%) down from their high point and corresponding \$4 trillion loss in household wealth. As a result, the drop in revenues in the coming years will be significant and perhaps more protracted than the 33% and 15% drop in capital gains previously estimated for 2001 and 2002.

- **Real Estate.** With the Fed on the sidelines when it comes to interest rates, both construction and real estate markets remain robust. However, in contrast to the nationwide 8.3% growth in existing homes and 1.9% in new home sales, growth in the County moderated to 0.4% through May 2002.

By contrast, home sale prices are rising at a much faster clip in the Washington region and many other metropolitan areas than the nation as a whole. In fact, both median and average prices in the County increased double-digits this year, which will benefit the County's future revenue stream through higher residential property reassessments.

Even though the County's office market continues to weaken, with the vacancy rate for class A space (10.2%) five-fold the rate two years ago, it remains below the N. Virginia jurisdictions. Especially, Loudon County is faced with significant risk if the financial problems for MCI result in a shutdown of its campus, and nearly double the vacancy rate to 33%.

- **Retail Trade.** Maryland mirrors the lackluster consumer spending trend observed nationally, and the corresponding weak consumer outlook measured by consumer confidence indexes. With retail trade, measured by sales tax, virtually flat from last year, it is no surprise that most state/local jurisdictions are faced with significant budgetary problems. Retail sales in the County remains solid for automotive and, reflecting the strong real estate market, building supplies. By contrast, furniture and apparel sales have fallen significantly from last year.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		
				2002	2001	2001
Leading Indicators						
National	May	0.4%		2.8%		2.5%
Washington MSA	April	-0.7%		-0.1%		-0.9%
Consumer Confidence Index						
National	June	-3.5%		-8.4%		-26.4%
South Atlantic Region	June	6.2%		-7.5%		-23.9%
Consumer Price Index						
All Items						
National	May	1.2%		1.3%		2.9%
Washington - Baltimore CMSA	May	2.5%		2.1%		2.6%
Core CPI						
National	May	2.5%		2.5%		2.7%
Washington - Baltimore CMSA	May	3.6%		3.2%		3.1%
Retail Trade						
National (sales)	May	2.7%		3.2%		3.7%
Maryland (tax)	April	1.6%		0.5%		3.0%
Montgomery County (tax)	April	1.4%		0.2%		3.8%
Employment						
National	May	134,365,000	135,202,000	133,405,200	134,971,600	135,073,000
- Percent Change		-0.6%		-1.2%		-0.1%
Washington PMSA (at place)	April	2,788,100	2,775,100	2,775,800	2,764,400	2,831,800
- Percent Change		0.5%		0.4%		2.8%
Montgomery County (resident)	April	481,690	471,871	480,536	472,735	477,701
- Percent Change		2.1%		1.7%		0.8%
Montgomery County (payroll)	Sep. 2001	449,512	455,719	447,989	444,528	447,744
- Percent Change		-1.4%		0.8%		4.9%
Unemployment						
National	May	5.5%	4.1%	5.9%	4.4%	4.8%
Maryland	April	5.0%	3.5%	5.1%	3.9%	4.1%
Washington PMSA	April	3.7%	2.4%	3.8%	2.5%	2.7%
Montgomery County	April	3.1%	1.8%	3.1%	1.9%	2.3%
Construction						
Project Cost - Montgomery County						
Total (\$ thousand)	May	\$151,771	\$116,590	\$632,065	\$442,012	\$1,353,664
- Percent Change		30.2%		43.0%		15.4%
Residential (\$ thousand)	May	\$89,764	\$54,907	\$265,684	\$213,418	\$682,768
- Percent Change		63.5%		24.5%		17.2%
Non-Residential (\$ thousand)	May	\$62,007	\$61,683	\$366,381	\$228,594	\$670,896
- Percent Change		0.5%		60.3%		13.6%
Building Permits (Residential)						
National	May	161,048	161,811	695,553	679,446	1,610,766
- Percent Change		-0.5%		2.4%		1.2%
Maryland	May	2,424	2,434	11,961	10,943	28,412
- Percent Change		-0.4%		9.3%		-6.4%
Montgomery County	May	354	453	1,871	1,654	5,091
- Percent Change		-21.9%		13.1%		13.8%
Building Permits (Non-Residential)						
Montgomery County	May	171	241	799	837	2,102
- Percent Change		-29.0%		-4.5%		23.9%
Real Estate						
National						
Sales	May	5,750,000	5,400,000	5,770,000	5,330,000	5,296,000
- Percent Change		6.5%		8.3%		2.8%
Median Price	May	\$154,600	\$145,000	\$152,400	\$141,400	\$147,800
- Percent Change		6.6%		7.8%		6.3%
Montgomery County						
Sales	May	1,304	1,433	5,425	5,404	15,489
- Percent Change		-9.0%		0.4%		4.8%
Average Price	May	\$305,762	\$268,873	\$295,539	\$259,065	\$274,522
- Percent Change		13.7%		14.1%		8.1%
Median Price	May	\$245,000	\$209,900	\$234,200	\$195,160	\$215,000
- Percent Change		16.7%		20.0%		13.2%

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